Summary of Financial Results for Second Quarter of the Year Ending December 2020 [Japanese GAAP] (Consolidated)

August 7, 2020

Name of Company:	LTS, Inc.	Stock Exchange Listing: Tokyo	
Stock Code:	6560	URL	https://lt-s.jp/
Representative:	Title: President and CEO	Name: Hiroaki Kabashima	
Contact Person:	Title: Executive Officer and Manager of Group Management Office	Name: Hiroyuki Komatsu	Phone: +81-3-5919-0512

Date of filing of quarterly report: August 12, 2020
Date of commencement of dividend payment (tentative): –
Preparation of quarterly supplementary materials: Yes
Convening of a quarterly results meeting: Yes

(Amounts less than one million are rounded down)

1. Financial results for second quarter of fiscal year ending December 2020 (January 1, 2020 – June 30, 2020)

(1) Operating results (consolidated) (Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
2Q FY2020	2,676	64.1	255	85.8	231	68.4	149	68.3
2Q FY2019	1,630	14.1	137	8.0	137	8.1	89	3.9

(Note) Comprehensive income 2Q FY2020: 145 million yen (63.7%) 2Q FY2019: 88 million yen (3.9%)

	Profit per share	Profit per share fully diluted
	yen	yen
2Q FY2020	36.96	34.30
2Q FY2019	21.77	20.10

(2) Financial position (consolidated)

	Total assets	Net assets	Capital adequacy ratio
	million yen	million yen	%
2Q FY2020	3,687	1,593	43.0
FY2019	2,451	1,503	61.3

(Reference) Shareholders' equity 2Q FY2020: 1,584 million yen FY2019: 1,503 million yen

2. Dividends

	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Total
	yen	yen	yen	yen	yen
FY2019	–	0.00	–	0.00	0.00
FY2020	–				
FY2020 (forecast)		0.00	–	0.00	0.00

3. Forecast for the fiscal year ending December 2020 (January 1, 2020 – December 31, 2020)

(Percentage figures represent year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	5,000	31.9	400	30.0	350	17.4	240	19.0	58.66

(Note) Revisions to the most recently announced earnings forecast: No
(Note) There is no first half forecast.

*Notice:

(1) Changes in main subsidiaries during year to quarter end (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): No
New consolidations: company(ies) (Company name(s)); Exclusions: company(ies) (Company name(s))

(2) Application of accounting treatment specific to the preparation of the consolidated quarterly financial statements: No

(3) Changes in accounting policies, accounting estimates, and restatements
(a) Changes in accounting policies due to revision of accounting standards: No
(b) Changes in accounting policies other than those in (a): No
(c) Changes in accounting estimates: No
(d) Restatements: No

(4) Number of shares outstanding (common shares)

(a) Shares outstanding (including treasury shares) at end of period	2Q of year ending December 2020	4,151,300 shares	Year ended December 2019	4,151,100 shares
(b) Treasury shares at end of period	2Q of year ending December 2020	87,600 shares	Year ended December 2019	60,000 shares
(c) Average number of shares during period	2Q of year ending December 2020	4,053,392 shares	2Q of year ended December 2019	4,090,371 shares

*Quarterly financial results summaries are not subject to audit.

*Cautionary statement regarding business results forecasts and special notes

The financial forecasts and other forward-looking statements herein are based on currently available information and assumptions considered by the Company to be reasonable and do not represent a commitment from the Company that they will be achieved. Actual results may differ substantially due to various factors.

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1. Qualitative Information related to the Consolidated Business Results

(1) Explanation of Operating Results

During the first six months of the fiscal year (January 1 to June 30, 2020), the Japanese economy deteriorated rapidly as a result of stay at home orders due to the declaration of state of emergency and reduction of corporate activities in conjunction with the spread of COVID-19. The impact of COVID-19 has spread worldwide, and the future of the economy is uncertain.

In the information services industry, which is the main business domain of our Group (the Company and its consolidated subsidiaries, the same applies hereinafter), demand has decreased from some business categories and industries due to an overall decline in economic activity, but management interest in digital transformation (DX) is growing in anticipation of the peri- and post-corona situations. Demand remains strong for providing support for such corporate activities as work style reform, including introducing task performing robots such as AI and RPA (robotic process automation) and promoting telecommuting.

Under these circumstances, the Group has been developing a professional services business and a platform business as a company that supports and promotes corporate transformation and work style reform. In our professional services business, we enter our customers' work sites and deliver expect solutions, utilizing robotics, AI, and business process management to provide one-stop support catered to the customer's unique challenges and reform objectives. In addition to strengthening our collaborations with other companies through M&A and other means, we worked actively on project execution in conjunction with telecommuting as well as hiring and training of human resources. In our platform business, we solve IT personnel shortages and, in addition to rolling out existing Assign Navi and Consultant Job services, we promoted development of our new CS Clip service that matches operating companies with DX companies.

As a result of the above, during the first six months of the fiscal year, we achieved net sales of ¥2,676.097 million (up 64.1% year on year), operating profit of ¥255.878 million (up 85.8% year on year), ordinary profit of ¥231.574 million (up 68.4% year on year), and profit attributable to owners of parent of ¥149.813 million (up 68.3¥% year on year).

A summary of financial results by segment (net sales includes internal sales) is provided below.

(Professional Services Business)

In our professional services business, we steadily acquired traditional consulting projects based on our strengths in business process management for implementing strategies. This was a result of our focus on strengthening relationships with corporate customers while making use of telecommuting. We did this in the midst of significant changes in the environment surrounding our IT Division in response to various restrictions imposed on corporate activities in conjunction with the spread of COVID-19. We also actively worked on expanding our services and further improving the quality thereof, primarily with respect to digital transformation (DX) projects. This was done by promoting closer collaboration with technology companies and other outside companies, including making IoToI Japan Inc., which supports innovation utilizing IoT, a consolidated subsidiary and partnering with Integratto Inc.

As a result, net sales in the professional services business came to ¥2,590.518 million (up 64.5% year on year) and segment profit came to ¥225.059 million (up 50.6% year on year).

(Platform Business)

In the platform business, the number of members in the Assign Navi platform, which provides business matching and a learning forum specialized for the IT industry, grew to 9,270 including both corporate and individual members as of June 30, 2020. This steady growth represents an 895-member increase over the end of the previous year. Our track record with Assign Navi and Consultant Job matching and member services has also expanded in conjunction with growth of our member base, and sales were strong. In addition to developing and growing our existing services, we revised our billing system in the aim of strengthening our organizational structure and improving profitability. We also actively worked on efforts to expand future profitability and build a stable business foundation, including ongoing investment in CS Clip, which is being planned and developed as a new service.

As a result, net sales in the platform business came to ¥110.867 million (up 52.1% year on year), and the segment profit came to ¥30.818 million (as opposed to a loss of ¥11.713 million the previous year).

(2) Explanation of Financial Position

Total assets at the end of the first six months of the fiscal year were ¥3,687.475 million, up ¥1,235.499 million from the end of the previous fiscal year. This was primarily due to a ¥1,158.149 million increase in cash and deposits.

Liabilities amounted to ¥2,093.907 million, up ¥1,145.564 million from the end of the previous fiscal year. This was primarily due to a ¥910.818 million increase in long-term borrowings, and a ¥241.994 million increase in current portion of long-term borrowings.

Net assets amounted to ¥1,593.568 million, up ¥89.934 million from the end of the previous fiscal year. This was primarily due to a ¥144.954 million increase in retained earnings, and a ¥58.552 million increase in treasury shares. The equity ratio was 43.0%.

(3) Explanation of Consolidated Earnings Forecasts and Other Future Projections

With the global spread of COVID-19, we expect that it will continue to be difficult to make future projections for some time. The business environment is deteriorating, and a short-term drop in investor enthusiasm is unavoidable. Nevertheless, strategic investment in IT to ensure competitiveness in anticipation of business growth after the COVID-19 pandemic comes to an end and digital transformation (DX) initiatives for management such as operational streamlining, telecommuting, and other work style reform are expected to continue expanding in the medium to long term. Our Group has major customers in a wide range of business categories and industries, many of which have only been impacted by COVID-19 to a limited extent. In many cases, we are ensuring the health and safety of employees while maintaining customer service and operational quality through telecommuting and other efforts with the cooperation of our corporate customers. As a result, the impact of COVID-19 on our business results is currently limited. On the other hand, there are still uncertainties when it comes to the outlook for future earnings, including the existence of some relevant business categories and industries that require close monitoring of future trends.

With respect to the full-year consolidated earnings forecast for the fiscal year ending December 31, 2020, as of the end of the first six months, we have achieved 53.5% of the forecast for net sales and 64.0% of the forecast for operating profit. Based on the circumstances, however, we have left the full-year consolidated earnings forecast announced on February 7, 2020 with the Summary of Financial Results as-is.

We will continue to monitor the impact of COVID-19 on the Group’s business results and will engage in prompt disclosure in the event that there is a need to revise the earnings forecast.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2019)	First six months of the current fiscal year (ended June 30, 2020)
Assets		
Current assets		
Cash and deposits	1,385,445	2,543,594
Electronically recorded monetary claims - operating	74,279	78,801
Accounts receivable - trade	601,973	626,934
Work in process	44,589	37,800
Allowance for doubtful accounts	(2,159)	(2,062)
Other	57,196	66,041
Total current assets	2,161,325	3,351,109
Non-current assets		
Property, plant and equipment	45,175	43,111
Intangible fixed assets		
Goodwill	83,366	93,525
Software	8,678	7,216
Software in progress	24,703	52,275
Total intangible fixed assets	116,748	153,017
Investments and other assets		
Deferred tax assets	57,352	37,886
Leasehold and guarantee deposits	40,157	41,985
Investment securities	20,330	30,000
Other	10,885	30,366
Total investments and other assets	128,726	140,237
Total non-current assets	290,650	336,366
Total assets	2,451,976	3,687,475

(Thousands of yen)

	Previous consolidated fiscal year (ended December 31, 2019)	First six months of the current fiscal year (ended June 30, 2020)
Liabilities		
Current liabilities		
Accounts payable – trade	405,963	407,669
Current portion of long-term borrowings	36,170	278,164
Short-term borrowings	-	50,000
Accounts payable – other	129,819	74,309
Income taxes payable	87,863	78,781
Provision for bonuses	103,390	69,032
Provision for bonuses for directors (and other officers)	4,424	-
Other	126,614	170,769
Total current liabilities	894,247	1,128,727
Non-current liabilities		
Long-term borrowings	52,495	963,313
Other	1,600	1,866
Total non-current liabilities	54,095	965,179
Total liabilities	948,342	2,093,907
Net assets		
Shareholders' equity		
Share capital	516,510	516,570
Capital surplus	446,835	441,570
Retained earnings	623,734	768,689
Treasury shares	(83,738)	(142,290)
Total shareholders' equity	1,503,342	1,584,539
Accumulated other comprehensive income		
Foreign currency translation adjustment	291	236
Total accumulated other comprehensive income	291	236
Non-controlling interests	-	8,792
Total net assets	1,503,633	1,593,568
Liabilities and net assets	2,451,976	3,687,475

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly consolidated statement of income

First six months of the fiscal year

(Thousands of yen)

	First six months of the previous fiscal year (January 1 - June 30, 2019)	First six months of the current fiscal year (January 1 - June 30, 2020)
Net sales	1,630,837	2,676,097
Cost of sales	954,524	1,705,676
Gross profit	676,313	970,421
Selling, general and administrative expenses	538,568	714,543
Operating profit	137,744	255,878
Non-operating profit		
Interest income	10	21
Foreign exchange gains	124	53
Surrender value of insurance policies	-	3,670
Other	171	27
Total non-operating income	306	3,773
Non-operating expenses		
Interest expenses	369	2,358
Listing expenses	-	4,000
Share of loss of entities accounted for using equity method	-	20,330
Other	150	1,387
Total non-operating expenses	520	28,076
Ordinary profit	137,531	231,574
Profit before income taxes	137,531	231,574
Income taxes - current	36,274	66,490
Income taxes - deferred	12,217	19,465
Total income taxes	48,492	85,956
Profit	89,039	145,618
Loss attributable to non-controlling interests	-	(4,194)
Profit attributable to owners of parent	89,039	149,813

Quarterly consolidated statement of income

First six months of the fiscal year

(Thousands of yen)

	First six months of the previous fiscal year (January 1 - June 30, 2019)	First six months of the current fiscal year (January 1 - June 30, 2020)
Profit	89,039	145,618
Other comprehensive income		
Foreign currency translation adjustment	(137)	(55)
Total other comprehensive income	(137)	(55)
Comprehensive income	88,901	145,563
(Breakdown)		
Comprehensive income attributable to owners of parent	88,901	149,758
Comprehensive income attributable to non-controlling interests	-	(4,194)

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

The Company purchased 60,000 treasury shares on February 10, 2020 in accordance with the resolution at the Board of Directors meeting held on February 7, 2020. Additionally, it was resolved at the Board of Directors meeting held on April 16, 2020 to dispose of treasury shares for restricted stock compensation, and in accordance with this, 32,400 shares were disposed of on May 15, 2020. As a result, the amount of treasury shares increased 58,552,000 yen during the first six months of the fiscal year to 142,290,000 yen as of June 30, 2020.

(Segment Information)

First six months of the current fiscal year (January 1 – June 30, 2020)

1. Information Regarding Amounts of Net Sales, Profit, and Loss for Each Reporting Segment

(Thousands of yen)

	Reporting Segment			Adjustment	Total Shown in Quarterly Consolidated Statement of Income *1
	Professional Services Business	Platform Business	Total		
Net sales					
Net sales to unaffiliated customers	2,590,518	85,579	2,676,097	-	2,676,097
Transactions with other segments	-	25,288	25,288	(25,288)	-
Total	2,590,518	110,867	2,701,386	(25,288)	2,676,097
Segment profit	225,059	30,818	255,878	-	255,878

*1. Segment profit is reconciled to operating profit presented in the quarterly consolidated statement of income.

2. Impairment Loss or Goodwill on Non-current Assets for Each Reporting Segment

(Significant change in the amount of goodwill)

In the professional services business, we acquired shares of IoToI Japan Inc. and made it a consolidated subsidiary during the first three months of the fiscal year. The resulting goodwill was 21,037,000 yen.

The amount of goodwill is a provisional calculation as the acquisition cost has not been allocated. This is because as of the date of business combination, identification of identifiable assets and liabilities and estimation of market value had not been completed.

(Additional Information)

First Six Months of the Fiscal Year Under Review (January 1 to June 30, 2020)
(Application of Tax Effect Accounting Relating to Transition from Consolidated Taxation System to Group Tax Sharing System) LTS, Inc. and some domestic subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities according to the tax acts before they were amended based on the treatment of Paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force No.39, March 31, 2020) instead of applying the provision of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No.28, February 16, 2018) with respect to the transition to the group tax sharing system established in "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020) and items for which the non-consolidated taxation system has been reviewed in the line with the transition to the group tax sharing system.